
BALANCED BUDGET ACT OF 1997

Highlights of the FY 1998 Reconciliation Conference Agreement

Prepared by U.S. Senate Budget and Finance Committees

July 29, 1997

NOTE: Numbers are based upon estimates as of July 29, 1997 and may be subject to re-estimates.

The Conference Report implements the Bipartisan Budget Agreement reached in May and balances the budget for the first time in thirty years.

For the past two years, Republicans have insisted that any budget passed through Congress be a balanced budget, which includes their priorities of fiscal responsibility, much needed tax relief for working American families, preserving and strengthening Medicare and encouraging economic growth. The Balanced Budget Act of 1997 is a reaffirmation of these basic Republican tenets. Americans have asked Congress to work in a bipartisan way to end the era of big government, save Medicare and cut taxes. Republicans have listened and implemented those wishes.

Deficit Reduction:

-- Total spending reductions of approximately \$270 billion over the next five years (from current services baseline) and nearly \$1 trillion in savings over ten years. Over five years the agreement includes:

- ◆ Appropriated accounts -- \$140 billion
- ◆ Entitlements and net interest savings - \$132 billion.
- ◆ Increased Spending on Children's Health-- \$24 billion (as per Senate bill).
- ◆ Net tax cuts- over \$90 billion

-- Extends Budget Enforcement discretionary caps, holding annual spending to an average growth of 0.5% over the next five years-- saving \$140 billion.

Tax Cuts:

Net tax cuts of over \$90 billion over the next five years. The following tax reductions are included :

□ \$500 per Child Tax Credit

- For families with children under age 17
- \$400 credit in 1998; \$500 credit 1999 thereafter

- No mandatory deposit requirement
- Partially refundable against payroll taxes through enhanced EIC
- Income phase outs begin at \$110,000 for couples; \$75,000 for singles

□ **Education**

- Modified Hope Scholarship (Years 1-2: 100% of first \$1,000 of tuition; 50% of second \$1,000; Years 3-4: 20% of \$5,000 of tuition)
- State prepaid tuition plans receive tax free treatment; 10 percent penalty on amounts not used for tuition, books, room and board
- Education IRAs -- Contributions of up to \$500 per child (income limits begin at \$95,000 for singles and \$150,000 for couples)
- Penalty free withdrawals for education from retirement IRAs
- Extension of employer provided education assistance for three years
- Repeal of section 501 © (3) bond cap for new construction
- Deduction for computer donations to schools
- Raise the small issue bond cap to \$10 million for school construction
- \$2,500 per year student loan interest deduction

□ **Individual Retirement Accounts**

- Raise the income limits on front loaded IRAs \$10,000 for couples and \$5,000 for singles in 1998, 2002, 2003, 2004 until current law thresholds are doubled to \$50,000 for singles and \$80,000 for married couples.
- Creates new back loaded IRA in which contributions are not tax deductible, but withdrawals are tax-free if account held for at least five years and account holder is at least age 59 ½. Income limits begin at \$95,000 for singles and \$150,000 for married couples.
- Allows penalty free withdrawals for first time home purchase
- Allows nonworking spouses to save full \$2,000 annually in IRA regardless of working spouses' pension plan. (Income limits begin at \$150,000)

□ **Capital Gains**

- A top rate of 20% for investments held for at least 18 months (12 months if investment was sold before July 29, 1997)
- An 18% rate for assets purchased after 2000 and held at least five years
- A top rate of 10% for 18 month assets and 8% for 5 year assets for joint filers with incomes less than \$41,200 (in 1998)
- A \$500,000 exclusion for home sales for joint filers, \$250,000 for single filers
- Effective date for sales after May 6, 1997

□ **Small Business**

- Reinstate the home office business deduction

- Accelerate the phase in of the self-employed health insurance deduction.
- **Estate and Gift Tax**
 - Family farm/small business exclusion of \$700,000 effective 1998 (total = \$1.3 million)
 - Unified credit phases up to \$1 million by 2007 (family farm/small businesses remain at \$1.3 million)
- **Alternative Minimum Tax**
 - Relief from the depreciation provisions of the AMT to promote economic growth and job creation (conforms depreciation lives)
 - Small business exemption from AMT
- **Airline Ticket Tax**
 - Lowers the current 10% ticket tax to 7.5% over three years (the rate will be 9% in October 1997) and creates a flight segment fee.
 - Imposes a \$12 arrival and departure fee for international flights
- **Tobacco Taxes** (Included in the spending bill)
 - 10 cent per pack increase in 2000 and 2001 (increasing current tax to 34 cents per pack)
 - 15 cent per pack increase in 2002 (bringing tax to 39 cents per pack)

Entitlements:

- **Medicare** net savings of \$115 billion over five years, and nearly \$385 billion over the next ten years. Solvency of the Medicare Trust Fund is extended ten years, as required by the Budget Agreement.
 - ◇ Medicare will provide beneficiaries with a new program of private health care coverage choices called Medicare+Choice, saving nearly \$95 billion over the next 10 years. Options include: HMOs, PPOs, PSOs, and Private Fee-for-Service. A demonstration of Medical savings accounts will be conducted for up to 390,000 beneficiaries, based on an administrative structure included in the House-passed reconciliation bill.
 - ◇ Part B premiums maintained at 25% of program costs.
 - ◇ Reduce disproportionate share payments to hospitals.
 - ◇ Payments to graduate medical education institutions are phased out of Medicare+Choice payments over the next five years.

- ◇ Includes reforms to managed care payment methodology -- a phased in 50/50 blended payment of local and national costs with certain price adjustments. A minimum monthly payment floor of \$367 dollars indexed to overall fee for service cost growth.
 - ◇ Home Health Care to be transferred from Medicare Part A to Part B and phased into the 25% Part B premium.
 - ◇ Includes \$4 billion for a package of new preventive benefits, including: annual mammography, diabetes self-management, and prostate colorectal cancer screening. Nearly \$1.0 billion in new spending over the next five years would be provided for rural health initiatives.
 - ◇ Means-testing of part B premiums, new copayments for home health services, and an increase in the eligibility age are not included. Instead, a bipartisan Medicare commission to study long term reforms will be established by December 1, 1997 and will conclude study by December 1, 1998.
- **Medicaid** savings total nearly \$13 billion over five years, nearly \$60 billion over 10 years.
 - ◇ It is assumed savings would be achieved from reduced disproportionate share payments and non-DSH payments of \$4 billion over 5 years.
 - ◇ Substantial new state flexibility, including managed care without waivers, repeal of “Boren Amendment” and reduced QMB/Dual eligible medical reimbursement rates and elimination of unnecessary requirements.
 - ◇ A capped entitlement to the states of \$1.5 billion to assist low income Medicare beneficiaries.
- **Children’s Health** spending will total \$24 billion over five years.
 - ◇ States will have three mechanisms of establishing programs: enhanced Medicaid funding, state health insurance programs, and direct services program using up to 15% of funding, or any combination of the three.
 - ◇ Additionally states will have as many as five options for developing benefits packages: FEHB/Blue Cross Blue Shield, State HMOs, state employee health plan, a state plan approved by Secretary of HHS or an actuarially equivalent package of their choosing.
- **Welfare, Food Stamps and SSI** spending will total approximately \$16 billion over

five years.

- ◇ Restores benefits to all legal non-citizens receiving SSI as of August 22, 1996 and all non citizens who were residing in the U.S. as of August 22, 1996 and become disabled in the future. These provisions cost roughly \$11.4 billion over five years.
 - ◇ Provides states with the authority to exempt up to 15% of their food stamp case load from a work requirement for able-bodied 18-50 year olds with no dependents. Creates additional work slots for those affected by the work requirement. Spending on these provisions will be approximately \$1.5 billion over five years
 - ◇ A four year temporary \$3 billion program created to assist welfare in funding work. recipients of the temporary assistance for needy families block grant program. Funds will be distributed to areas with high poverty or high unemployment, administered by the Department of Labor.
- **Other Mandatory** program savings total some \$38 billion over five years.
- ◇ Student loan program savings of \$1.8 billion over 5 years.
 - ◇ Federal Retirement (no COLA delay) savings of nearly \$5 billion over 5 years.
 - ◇ Housing program reforms of \$1.6 billion over 5 years.
 - ◇ Spectrum auction savings of \$21 billion.
 - ◇ \$2.7 billion in savings from veteran's programs.
 - ◇ Asset sales resulting in \$540 million, and extension of vessel-tonnage fees totaling \$196 million.

Budget Enforcement:

- The Conference Report enforces a balanced budget with the following provisions.
- ◇ Extends binding limits on discretionary spending through 2002. Limits are enforced by 60 vote points of order in the Senate. If these limits are exceeded, OMB would be required to make across-the-board spending reductions.
 - ◇ Establishes a “firewall” for defense and non-defense discretionary spending.
 - ◇ Extends a separate cap through 2000 to dedicate higher spending levels for

violent crime reduction control spending.

- ⇒ Extends the “pay-as-you-go” requirement for legislation enacted through 2002. If legislation is enacted through 2002 that would cause a deficit increase in any year through 2006, requires across-the-board spending reductions in spending in that year.
- ⇒ For the Senate, establishes a Senatorial task force to report changes to the procedures used to consider budget resolutions and reconciliation bills.